



# **MACHAKOS UNIVERSITY COLLEGE**

**(A Constituent College of Kenyatta University)  
University Examinations for 2015/2016 Academic Year**

**SCHOOL OF BUSINESS AND ECONOMICS**

**DEPARTMENT OF BUSINESS ENTREPRENEURSHIP AND MANAGEMENT  
SCIENCES**

**FIRST SEMESTER EXAMINATION FOR DEGREE IN**

**BACHELOR OF COMMERCE**

**BACHELOR OF ECONOMICS**

**BACHELOR OF ECONOMICS AND STATISTICS**

**BACHELOR OF ECONOMICS AND FINANCE**

**BACHELOR OF EDUCATION**

**BAC 100: FUNDAMENTALS OF ACCOUNTING 1**

**Date: 2/12/2015**

**Time: 8:30 – 10:30 AM**

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## **INSTRUCTIONS**

**Answer question one and any other two questions**

### **QUESTION ONE -COMPULSORY**

- a) The following are accounting concepts which guide accountants when preparing financial statements.
- (i) Materiality concept
  - (ii) Accruals concepts
  - (iii) Prudence concept
  - (iv) Going concern concept
- (4 marks)

Explain each of the above concepts and describe their implication in the preparation of the financial statements

- b) State and justify the accounting equation (4 marks)
- c) Explain clearly the differences between the following
- (i) Capital expenditure and revenue expenditure
  - (ii) Bad debts and provision for bad debts
  - (iii) Carriage inwards and carriage outwards (4 marks)
- d) The following are users of accounting information contained in the financial statements
- (i) The management
  - (ii) Business owners
  - (iii) Lenders

For each of the above users identify the kind of information needed and why (6 marks)

- e) Zolaa enterprises operates an analyzed petty cash book under the imprest system, the imprest amount is usually Shs. 100,000. The following were transactions for the month of September 2000.

- 1 Balance b/fshs. 14,000
- 2 petty cash restored to imprest amount
- 4 bought different types of envelopes shs. 16,000
- 10 brought printing papers shs. 20,000
- 10 paid wages to weekly cleaners shs. 16,000
- 14 paid for transport sh5000
- 20 purchased toners for the computer shs. 2,000
- 28 petty cash restored to imprest amount

Prepare Zolaa pettycash book for the month of September 2000 with the following analytical columns stationery ,cleaning,transport and miscileneous (10 marks)

## **QUESTION TWO**

Mamboleo operates an hardware in MachakosCounty. The following was his trial balance for the year ended 31<sup>st</sup> December 2013

	<b>Dr.</b>	<b>Cr.</b>
	Shs. '000'	Shs. '000'
Motor vehicles	6,000	
Purchases and sales	28,000	52,700
Premises	8,000	
Furniture	4,000	
Stock (1.1.2013)	3,000	
Debtors and creditors	5,000	4,000
Discounts	1,500	2,800
Rent	200	
Returns	2,000	1,000
Bad debts	2,000	
Telephone	300	
Provision for doubtful debts		300
General expenses	3,000	
Electricity	300	
Carriage outwards	300	
Carriage inwards	200	
Capital		10,000
Wages	4,000	
Drawings	<u>3,000</u>	<u>          </u>
	70,800	70,800

### **Additional information**

- (i) Wages Shs. 160,000 relate to year 2014
- (ii) Unpaid expenses at the end of the year
  - a. Rent Shs. 150,000
  - b. General expenses Shs. 200,000

- (iii) Stock (31.12.13) was shs, 2,000,000
- (iv) Provision for doubtful debts is to be increased by 5%
- (v) Telephone and electricity bills for the year 2013 were 150,000 and shs. 250,000 respectively
- (vi) Depreciation is provided on motor vehicle and furniture at 15% on cost

**Prepare**

- (i) Income statement for the year ended 31<sup>st</sup> December 2013 (12 marks)
- (ii) Statement of financial position as at 31<sup>st</sup> December 2013 (8 marks)

**QUESTION THREE**

- (a) The following information was extracted from the books of Twaweza Enterprises for the year ended 31<sup>st</sup> December 2012

	Kshs.
Sales ledger balance (1.1.2012)	
Debit	2,300,000
Credit	27,000
Totals for the year: sales journal	4,800,000
Sales returns journal	83,000
Cheque received from debtors	1,000,000
Cash received from debtors	2,300,000
Dishonoured cheques	100,000
Discount allowed	53,000
Refund to debtors	5 000
Bad debts written off	14 000
Sales ledger credit balance (31.12.2012)	7,000

- Prepare a sales ledger control account as at 31<sup>st</sup> December 2012 (10 marks)

- b. The following information was obtained from the books of Zelah Limited for the financial year ended 31<sup>st</sup>December2011

Debtors (1.1.2011)	120,000
Total credit sales for the year	7,00,000
Cash paid by the debtors during the year	400,000

During the year, Zelah Limited received sales returns from the following credit customers

04.02.2011 credit note no.1 sales returns by James Shs. 40,000

10.05.2011 credit note no.2 sales returns by Anna Shs. 70,000

18.07.2011 credit note no. 3 sales returns by Real hs. 20,000

20.10.2011 credit note no. 4 sales returns by KegoShs. 30,000

23.11.2011 credit note no. 5sales returns by Amos Shs. 5,000

### **Prepare**

- a. Sales returns journal for year 2011 (5 marks)
- b. Debtors (total) account for the year 2011 (5 marks)

### **QUESTION FOUR**

The books of Bela traders were prepared but the trial balance failed to balance with credits exceeding the debits by shs. 90 000; the amount was then entered in the suspense account.

The following errors were later discovered

- 1) The purchases journal was overcast by Sh.20,000
- 2) A new machine purchased shs.50,000 was charged to office expenses account
- 3) Goods bought in cash shs. 23,000 were only recorded in the cash book
- 4) Sales journal was under cast by shs. 4,090
- 5) James account was credited by Shs. 1760 instead of shs.1670
- 6) Cash discount of shs. 2,000 allowed to Musa was correctly entered in her account but entered as discount received in the business accounts.
- 7) Goods sold to ken Sh. 10,000 were entered in Ben's account

- 8) A sale of goods to moraa shs. 40,000 was credited to her account
- 9) Bank account balance of Sh. 7,000 was not included in the trial balance.
- 10) Goods taken out of the business sh.5,000 by Bela for a family party were never recorded in the books of accounts

**Prepare**

- (i) Journal entries to correct the above errors (12 marks)
- (ii) Suspense account duly balanced.

**QUESTION FIVE**

John runs a retail shop but does not keep his account following the double entry system. He availed the following information

	<b>31.12.2012</b>	<b>31.12.2013</b>
Debtors	5,500	6,600
Creditors	1,600	2,600
Furniture	3,300	2,970
Stock	6,360	6800
Bank	5650	17,940
Cash	320	420
Outstanding rent	-	350

**Additional information**

- 1) John used shs. 13000 cash from the business for his family expenses
- 2) Cheque paid to supplier amounted to shs.31,600 for the whole year
- 3) John never used to keep proper records of goods sold on credit to customers. However he has the following amounts as total amount received from credit customer, cheque sshs. 48000 and cash shs. 13500
- 4) The following expenses were paid during the year by cheque; general expenses shs. 310 and rent shs. 4,200

**Prepare**

- 1) Relevant ledger accounts to make necessary adjustments
- 2) Income statement for the year 2013
- 3) Statement of financial position as at 31.12.2013